Mossberg's Investor Digest

October 2013
Issue #64

From the Editor…

Hedge funds are back in force…

This year, the hedge fund industry has seen a significant rebound from the significant slump that it faced in 2009. According to Hedge Fund Research, the industry managed a record $2.51 trillion in assets, up from $1.87 million during the depth of the financial crisis. The number of funds has also set a new record. There are 8,201 funds, 567 more than before the crisis.

There were massive withdrawals from these funds during 2008 and 2009 as investors exited the market. Forced with redemptions, many of these funds were forced to liquidate assets at market clearing prices and many ended up closing. This was particularly bad for smaller companies that had less liquidity. I remember seeing great companies on sale well below book value and even some at cash valuations. Based on their experiences, for the fund managers that survived for the several years that followed, liquidity was king. Despite being a bargain prices, due to their illiquidity smaller names became less attractive and underperformed. It seemed like the incremental buyer of smalls stocks went away.

With the influx of new capital and the growth of new funds, it appears we are seeing the other side of this trend. Just look at the Russell 2000, which has increased 38% this year. One place new funds go to deliver alpha is smaller companies. The market for small and microcap stocks is less efficient, and because smaller funds have fewer assets under management they are able to take positions that are meaningful relative to their overall positions.

Thank you for your interest in Mossberg's Investor Digest. I welcome your feedback.

Dave Mossberg

October 2013 Issue

Blue Earth Inc. (OTCQB:BBLU) *$3.09, October 16, 2013, Page 3* – Blue Earth acquires companies and technologies involved in two sectors: energy efficiency services (EESS) and renewable energy. The stock is well under the radar of many investors. Its liquidity alone is a deterrent for many; however, the opportunity for higher visibility through continued acquisitions, industry growth and communications with potential investors presents a ground-level opportunity for investors.

EveryWare Global, Inc. (NASDAQ:EVRY) - *$10.87, October 24, 2013, Page 4* – EveryWare Global designs and sells tabletop and food preparation products for consumers and foodservice companies. Excellent prospects in the second half and 2014 through organic growth and acquisitions. Its recurring revenue model with high replenishment rates for its products gives investors solid downside support.

KapStone Paper and Packaging Corporation (NYSE:KS) - *$45.83, October 25, 2013, Page 5* – KapStone Paper and Packaging Corporation produces a wide spectrum of bleached and unbleached kraft paper and corrugated products for domestic and international markets. It has four paper mills with capacity of 2.7 million tons and 22 converting plants strategically spread throughout the U.S. to meet customer needs. The appeal of this stock comes from the immediate impact of this combined company, the potential for growth, and the support from its shareholders.

Qumu Corporation (NASDAQ:QUMU) - *$14.09, October 29, 2013, Page 6* – Qumu Corporation was founded in 1978 and was known as Rimage Corporation until September 2013, when it changed its name to reflect its change in corporate focus on the enterprise video communications market. Generous cash generation and increasing contribution from the growing video business makes this under-the-radar company an interesting investment.

Mossberg's Investor Digest Idea Performance

The table below shows the relative change in the value of the ideas published since October 2012 and the Russell 3000. ***Performance data quoted represents past performance and does not guarantee future results.*** Current performance of ideas may be lower or higher than the performance quoted.

Company	Pub. Date	Original Price	Recent Price	Change	Russell 3000 Change Since Pub. Date	Relative Perf. vs. Russell 3000
GameStop Corp. (NYSE: GME)	4-Oct-12	$21.92	$55.20	151.8%	23.1%	132.1%
Sycamore Networks, Inc. (NASDAQ:SCMR)	11-Oct-12	$0.51	$0.48	-5.9%	25.5%	-28.0%
RPX Corp. (NASDAQ:RPXC)	25-Oct-12	$9.69	$18.20	87.8%	27.1%	63.9%
Prospect Global Resources, Inc. (NASDAQ:PGRX)	31-Oct-12	$2.76	$2.36	-14.5%	27.1%	-38.4%
Gaiam Inc. (GAIA)	7-Nov-12	$2.94	$6.15	109.2%	28.6%	83.7%
Green Dot Corporation (NASDAQ:GDOT)	26-Nov-12	$11.71	$20.97	79.1%	27.6%	54.4%
JTH Holdings, Inc. (NASDAQ:TAX)	27-Nov-12	$13.92	$20.10	44.4%	28.1%	19.1%
Elephant Talk Communications, Corp. (NASDAQ:ETAK)	28-Nov-12	$1.06	$0.61	-42.7%	27.2%	-67.0%
Sealed Air Corporation (NYSE:SEE)	16-Dec-12	$16.03	$30.80	92.1%	26.6%	68.5%
Westmoreland Coal Co. (NASDAQ:WLB)	17-Dec-12	$10.02	$14.13	41.0%	25.2%	18.7%
Regional Management Corp. (NYSE:RM)	18-Dec-12	$16.55	$32.78	98.1%	23.7%	77.0%
Michael Baker Corporation (NYSE:BKR)	30-Dec-12	$24.30	$40.47	66.5%	27.4%	41.8%
DHX Media Ltd. (TSX:DHX.TO)	12-Jan-13	$1.86	$3.78	103.2%	21.1%	84.2%
Mood Media Corporation (TSX:MM.TO)	20-Jan-13	$1.93	$0.65	-66.3%	19.9%	-84.2%
MoneyGram International Inc. (NYSE:MGI)	30-Jan-13	$13.93	$20.77	49.1%	18.7%	32.8%
GenMark Diagnostics, Inc. (NASDAQ:GNMK)	30-Jan-13	$11.11	$12.21	9.9%	18.7%	-6.4%
MVC Capital, Inc. (NYSE:MVC)	12-Feb-13	$12.11	$14.03	15.9%	17.1%	0.8%
eGain Corporation (Nasdaq:EGAN)	15-Feb-13	$7.50	$12.49	66.5%	17.0%	51.5%
DSP Group (NASDAQ:DSPG)	26-Feb-13	$7.41	$7.34	-0.9%	19.0%	-17.5%
Unitech Corporate Parks (LSE:UCP.L)	28-Feb-13	$35.25	$37.00	5.0%	17.5%	-10.2%
Palomar Medical Technologies, Inc. (NASDAQ:PMTI)	6-Mar-13	$11.91	$13.65	14.6%	15.5%	1.4%
Global Power Equipment Group Inc. (NASDAQ:GLPW)	7-Mar-13	$16.84	$20.60	22.3%	15.2%	9.4%
NetSol Technologies, Inc. (NASDAQ:NTWK)	16-Mar-13	$10.84	$7.60	-29.9%	13.9%	-41.5%
Kofax, plc (OTC:KFAXF)	22-Mar-13	$4.47	$5.74	28.4%	14.2%	16.6%
Tutor Perini (NYSE: TPC)	16-Apr-13	$16.76	$23.54	40.5%	13.4%	29.9%
Carbonite (Nasdaq: CARB)	17-Apr-13	$10.00	$14.35	43.5%	15.1%	31.5%
GenCorp Inc. (NYSE:GY)	26-Apr-13	$13.06	$17.05	30.6%	12.7%	20.3%
Steinway Musical Instruments (NYSE:LVB)	26-Apr-13	$24.67	$40.00	62.1%	12.7%	51.9%
Axesstel (Nasdaq:AXST)	12-May-13	$1.30	$0.12	-90.8%	9.1%	-97.7%
Keweenaw Land Association (OTC: KEWL)	21-May-13	$76.28	$90.00	18.0%	6.8%	13.2%
Guidance Software, Inc. (NASDAQ:GUID	24-May-13	$9.23	$8.91	-3.5%	8.2%	-9.3%
Micron Technology, Inc. (NASDAQ:MU)	29-May-13	$11.83	$17.39	47.0%	8.3%	41.1%
CafePress Inc. (NASDAQ:PRSS)	4-Jun-13	$6.81	$6.03	-11.5%	9.4%	-18.4%
Carrols Restaurant Group, Inc. (NASDAQ:TAST)	11-Jun-13	$5.83	$5.70	-2.2%	9.7%	-9.5%
Rackspace Hosting, Inc. (NYSE:RAX)	30-Jun-13	$37.89	$51.99	37.2%	10.9%	28.6%
Ducommon Inc. (NYSE:DCO)	30-Jun-13	$21.26	$24.77	16.5%	10.9%	7.9%
Syneron Medical Ltd. (NASDAQ:ELOS)	17-Jul-13	$8.60	$9.60	11.6%	5.7%	7.6%
BGC Parnters, Inc. (NASDAQ:BGCP)	22-Jul-13	$6.44	$5.32	-17.4%	4.8%	-20.6%
Calamos Asset Management Inc. (NASDAQ:CLMS)	28-Jul-13	$10.75	$9.99	-7.1%	5.0%	-10.4%
Sunshine Heart, Inc. (NASDAQ:SSH)	29-Jul-13	$7.37	$10.99	49.1%	5.4%	45.4%
FelCor Lodging Trust (NYSE:FCH)	8-Aug-13	$5.95	$6.59	10.8%	4.5%	7.6%
Hydrogenics Corp. (NASDAQ:HYGS)	13-Aug-13	$11.14	$12.03	8.0%	4.7%	4.6%
BIO-key International, Inc. (OTCQB: BKYI)	29-Aug-13	$0.33	$0.17	-48.2%	8.0%	-55.3%
LRAD Corporation (NASDAQ:LRAD)	30-Aug-13	$1.52	$1.55	2.0%	8.5%	-5.5%
Famous Dave's (NASDAQ:DAVE)	19-Sep-13	$16.00	$18.24	14.0%	2.7%	12.2%
Alteva, Inc. (NYSE:ALTV)	23-Sep-13	$7.20	$7.61	5.7%	3.8%	2.6%
Roundy's, Inc. (NYSE:RNDY)	24-Sep-13	$9.19	$9.25	0.7%	4.0%	-2.7%
SMTC Corporation (NASDAQ:SMTX)	26-Sep-13	$1.97	$1.98	0.5%	3.8%	-2.8%
				23.8%	**14.9%**	**11.1%**

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Best Idea Profile: **Blue Earth Inc. (OTCQB:BBLU)**

DESCRIPTION:

Blue Earth acquires companies and technologies involved in two sectors: energy efficiency services (EESS) and renewable energy. Energy efficiency is a part of the clean-tech industry and includes building efficiency, industrial manufacturing, alternative energy, and transportation. The goal is to enable customers to reduce energy consumption, lower their generating capacity and maintenance costs, and reduce their environmental impact. Blue Earth's acquisition targets typically have technologies that improve the efficiency of building systems, such as refrigeration, lighting and heating, ventilation and air conditioning. The renewable energy division includes a unit that constructs and owns power plants that convert natural gas to electricity and thermal power on customer sites. Its other unit constructs solar projects for third-party owner/developers.

KEY INVESTMENT CONSIDERATIONS:

Growth and Economics of Industry – The energy efficiency services sector (EESS) is forecast to quadruple over the next few years to about $45-80 billion per year. The size is attractive and so are the economics; it costs only 14% as much to save a kilowatt hour as it does to produce a kilowatt hour. Additionally, there is virtually no government or agency opposition to energy efficiency programs. The American Recovery and Reinvestment Act has supported state and local government energy efficiency programs, increased spending in ratepayer funded programs and increased customer interest in strategies that mitigate higher utility bills and/or address environmental emissions. In other words, this industry is not going away!

Environmental and Financial Appeal – Blue Earth is vitally committed to supporting a sustainable planet. This is beneficial to shareholders as various industries move to jump on the bandwagon. According to an outsider report a few years ago, there are $130 billion of energy savings opportunities annually in the U.S. that go unrealized. There is significant financial appeal as well. For example, hosting on-site solar generation is attractive for customers striving to achieve environmental goals and control costs without significant upfront capital.

Focused Acquisition Strategy – Blue Earth looks to acquire energy management service companies with an established customer base that present opportunities to cross-sell products and services. Other targets are private companies that have provided utility-funded rebate programs as incentives to their customers to adopt energy efficiency measures. A company in refrigeration, lighting or HVAC that is installing energy efficient retrofits is a good candidate.

A sampling of acquisitions:
Castrovilla, Inc. serves over 6,000 small businesses and several utilities in Northern California by participating in utility ratepayer-funded energy efficiency rebate programs, and performing energy audits and refrigeration efficiency upgrades for small businesses.

Xnergy, Inc., ranked a #1 Alternative Energy Provider, helps private and public clients throughout California to minimize energy consumption, while also designing, building and implementing alternative technologies such as fuel cells, solar and geothermal.

Intelligent Power, Inc. uses a trademarked system to combine hardware, software and service to monitor and control energy and equipment in supermarkets.

VALUATION:

Blue Earth stock is well under the radar of many investors. Its liquidity alone is a deterrent for many; however, the opportunity for higher visibility through continued acquisitions, industry growth and communications with potential investors presents a ground-level opportunity for investors.

Blue Earth Inc. (OTCQB:BBLU)
Investment Data (as of 10/16/13)

Recent Price	**$3.09**
52-Week Range	$0.82 - $3.89
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	46.9 M
Average Trading Volume (3 mos)	85k
Market Capitalization	$145.1 M
Cash	$3.8 M
Long-term Debt	$25.8 M
Enterprise Value (EV)	$141.7 M
Book Value	$0.59
TTM Revenue	$12.4 M
P/ Revenue	12x
TTM EPS	$(0.66)
P/ EPS	NA
TTM EBITDA	$(12.0) M
EV/ EBITDA	-12

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Best Idea Profile: **EveryWare Global, Inc. (NASDAQ:EVRY)**

DESCRIPTION:

EveryWare Global designs and sells tabletop and food preparation products for consumers and foodservice companies. EveryWare operates globally in the United States, Canada, Mexico, Latin American, Europe and Asia. Its products include flatware, dinnerware, crystal stemware, glassware, cutlery, candle and floral glass, and kitchen tools and accessories. EveryWare was formed in 2012 through the merger of Anchor Hocking, LLC and Oneida Ltd., both of which were founded in the 1800's. EveryWare's headquarters are in Lancaster, Ohio.

KEY INVESTMENT CONSIDERATIONS:

Accelerating International Growth – International sales growth of 25% in the second quarter exceeded even the strong company-wide growth. EveryWare acquired two businesses in the United Kingdom and signed a Brazilian licensing agreement that strengthens its international presence and underscores the commitment to building globally. The Brazilian agreement is with Ana Maria Braga, a well-known Brazilian television personality, author and publisher. EveryWare products will be branded and sold under Ana Maria Braga brand names, establishing a foothold for the company in a $1.2 billion and growing tabletop market in Brazil. It also expects recovery in Europe, and growth in Korea, Mexico and China.

Product Strength – Tabletop purchasing decisions by consumers and institutions are highly influenced by brand reputation and EveryWare's iconic brands, Oneida and Anchor Hocking, are first and eighth, respectively in brand awareness. EveryWare has a leading market position in nearly all of the major categories in which it competes and expects all four of its segments to grow in 2014. The company has more than 9,000 products and is innovative and aggressive in its product introductions.

Blue-Chip Customers – EveryWare has extensive long-term relationships with a highly diversified blue-chip customer base: in consumer markets, Walmart, Crate & Barrel, Publix, Target; in foodservice, Hyatt, Marriott, Hilton, Royal Caribbean; in specialty, Constellation Brands, Pampered Chef. Its largest customer, Wal-Mart, represents 14% of sales but has had a 25-year relationship. In fact, the top ten customers have been with the company for an average of 25 years. No other customer accounts for more than 4% of sales.

Diversification – The business is diversified by channel and by customer. The consumer and foodservice markets each make up a third of the company's sales, with the other third in specialty and international markets. Its top five customers make up a quarter of sales, with the next five customers representing 11%.

Barriers – In addition to the difficulty of replicating brand awareness, management estimates that it would require approximately $250 million of invested capital to replicate its capabilities. There have been no new tabletop glass production facilities opened in North America in the last three decades, with no known plans underway. EveryWare is well positioned to continue growing with only minimal incremental capital required.

VALUATION:

EveryWare has excellent prospects in the second half and 2014 through organic growth and acquisitions. Its recurring revenue model with high replenishment rates for its products gives investors solid downside support. The stock appears attractively priced relative to its peers. The company reports third-quarter financial results next week.

EveryWare Global, Inc. (NASDAQ:EVRY)
Investment Data (as of 10/24/13)

Recent Price	**$10.87**
52-Week Range	$9.33 - $13.74
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	18.0 M
Average Trading Volume (3 mos)	29k
Market Capitalization	$196 M
Cash	$559 K
Long-term Debt	$280 M
Enterprise Value (EV)	$481 M
Book Value	$(2.98)
TTM Revenue	$427 M
P/ Revenue	0.5x
TTM EPS	$(3.48)
P/ EPS	NA
TTM EBITDA	$41 M
EV/ EBITDA	11.8 x

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Best Idea Profile: **KapStone Paper and Packaging Corporation (NYSE:KS)**

DESCRIPTION:

KapStone Paper and Packaging Corporation produces a wide spectrum of bleached and unbleached kraft paper and corrugated products for domestic and international markets. It has four paper mills with capacity of 2.7 million tons and 22 converting plants strategically spread throughout the U.S. to meet customer needs. Containerboard, primarily corrugated boxes of various grades and weights, represents 1.7 million tons per year of the company's production. KapStone generates 600,000 tons per year in kraft papers, including multiwall, various kraft grades and packaging for food, pet food, grocery and yard debris. Approximately 260,000 tons per year is used in various high pressure laminates, including furniture, shelving, countertops and flooring. In this market it is the market leader. The company was founded in 2005, is headquartered in Northbrook, Illinois, and employs approximately 4,500 people.

KEY INVESTMENT CONSIDERATIONS:

Impressive Growth – From its inception in 2005 KapStone shareholder funds have increased at a compound annual growth rate of 39%; it now has more than $2 billion in market capitalization. Management's goal is to grow profitably by investing in brown paper and packaging assets where it can optimize the operation of acquired companies and focus on cash generation. It appears to have a good track record so far as it has paid off 95% of the first three acquisitions. The most recent quarter's results set all-time records in net sales and adjusted diluted earnings per share of $0.48.

Favorable Industry Environment – The industry is undergoing consolidation. Although supply and demand appear to be in balance currently, the industry's inventories are low with a strong expectation that demand will continue to increase as worldwide economies improve. There will be only minimal growth in supply. Pricing is up in most grades with increases announced in spring 2013 that will begin to be fully realized in the third quarter results. Pricing was a significant contributor to the record results in the second quarter even before its full impact hits.

Recent Acquisition a Great Fit – In July 2013 KapStone acquired Longview Fibre and Packaging, Inc. for $1 billion in a cash-free and debt-free transaction. It improves the geographic footprint and diversifies the product mix offered by KapStone. It also creates a strong global position in the kraft paper segment as it has an established global customer base in 35 countries. Longview adds the ability to produce products that are 100% recycled. Possibly most significantly in the short term, the acquisition is immediately accretive to earnings. Further, the opportunities for growth and synergies are appealing when the companies are fully integrated.

Flexibility – Management expects a positive industry environment will continue but the company can quickly de-lever if needed because of its strong free cash flow. On the other hand the current asset base provides good growth opportunities, and increased utilization of the converting facilities can increase revenue and profits.

VALUATION:

The largest shareholders of KS, including immediate family, control 14% of the shares. The adjusted diluted earnings per share for KS (based on annualized second quarter combined results) is $3.28. The appeal of this stock comes from the immediate impact of this combined company, the potential for growth, and the support from its shareholders.

KapStone Paper and Packaging Corporation (NYSE:KS)
Investment Data (as of 10/29/13)

Recent Price	**$45.83**
52-Week Range	$19.24 - $50.10
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	48 M
Average Trading Volume (3 mos)	338k
Market Capitalization	$2.2 B
Cash	$8.4 M
Long-term Debt	$311.0 M
Enterprise Value (EV)	$2.5 B
Book Value	$11.81
TTM Revenue	$1.3 B
P/ Revenue	1.8x
TTM EPS	$1.42
P/ EPS	32.3 x
TTM EBITDA	$187.3 M
EV/ EBITDA	13.4 x

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Best Idea Profile: **Qumu Corporation (NASDAQ:QUMU)**

DESCRIPTION:

Qumu Corporation was founded in 1978 and was known as Rimage Corporation until September 2013, when it changed its name to reflect its change in corporate focus on the enterprise video communications market. The majority of its business comes from offering disc-publishing technology to archive, distribute and protect content on CDs, DVDs and Blu-ray discs. Qumu's enterprise video platform can capture video from any source and then automate its secure streaming and downloading. Audiences can view via iOS, Android, tablets, smartphones and PCs. Qumu was founded in 1978 and is headquartered in Minneapolis, Minnesota.

KEY INVESTMENT CONSIDERATIONS:

Value of Legacy Business – Although the disc publishing business delivered $69 million in revenue in 2012, it is a mature market with declining revenues. However it holds a leadership position in the high-end market and, most importantly, will continue to deliver profits and cash to the operations. This business is driven by recurring revenue and will generate $10 million of cash in 2013. Cost reductions initiated in the second quarter of 2013 will improve profitability from $700,000 in 2013 to $2.8 million in 2014. The optical storage business is not going away anytime soon because demand will continue to be fueled by high switching costs and practical usage.

Transforming Business Strategy – Qumu's new business strategy is built on the premise that "Video is the new document." Qumu's software revenues are expected to grow greater than 70% in 2013 with the first half growing at greater than 200% year over year. Qumu is involved in all stages of enterprise video content management: create, manage, distribute and experience. There is extensive opportunity for horizontal growth with its customers; for example, when a company employs Qumu products to conduct a CEO's town hall meeting, it often learns the value of expanding usage of video to other aspects of its business.

Growing Industry – Qumu's transformation is well timed as its legacy business is declining and the enterprise video market is growing fast. Enterprise video industry revenue is expected to increase from $11 billion in 2013 to $35 billion in 2018 as companies are investing in social business initiatives to improve employee engagement and collaboration. Video is increasingly being used in C-suite town hall meetings, knowledge sharing, video blogging, sales training, new product release training, safety and compliance training, customer service videos and employee onboarding and training. Gartner predicts that "by 2016, large companies will stream more than 16 hours of video per worker, per month."

Customer Breadth – Qumu has an impressive list of customers across a broad range of industries, from Safeway and AT&T Wireless in retail, to JPMorgan Chase and USAA in financial services. Other industries include industrial, professional services, service providers, technology and healthcare. Companies with 5,000 or more employees represent the sweet spot for Qumu customers.

Positive short-term Outlook – Management expects fourth quarter 2013 revenues will be approximately $20 million.

VALUATION:

Generous cash generation and increasing contribution from the growing video business makes this under-the-radar company an interesting investment. Management expects 2014 to be a break-out year as it has prepared itself to manage exponential growth and has increased its sales force investment.

Qumu Corporation (NASDAQ:QUMU)
Investment Data (as of 10/29/13)

Recent Price	**$14.09**
52-Week Range	$5.59 - $14.84
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	8.7 M
Average Trading Volume (3 mos)	58k
Market Capitalization	$122 M
Cash	$48 M
Long-term Debt	$4 M
Enterprise Value (EV)	$122 M
Book Value	$8.15
TTM Revenue	$82.6 M
P/ Revenue	1.5x
TTM EPS	$(0.92)
P/ EPS	NA
TTM EBITDA	$(5.9) M
EV/ EBITDA	(20.7)

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12 Monthly Compilation Issues

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